

**FISCAL NOTE**  
**HB 39 - SB 44**  
**FIRST EXTRAORDINARY SESSION**

April 19, 1999

**SUMMARY OF BILL:**

- Extends the franchise and excise tax to limited liability corporations and limited liability partnerships doing business in Tennessee, except for those exempt from taxation pursuant to Internal Revenue Code 491(a), 501(c) or 501(d).
- Amends the definition of *business earnings* to exclude a taxpayer engaged exclusively in the buying, selling, or holding of securities on its own behalf and not as a broker, and its gains or losses from the sale or exchange of such securities are treated as gains or losses from the sale or exchange of capital assets.
- Expands the present law to authorize the Commissioner of Revenue to allocate tax attributes among, and require combined reports from, any two or more persons, organizations, trades, or businesses owned or controlled by the same interests.
- Deletes the following Special Privilege Tax Rates:
  - 1.9% reduced rate on the gross receipts of persons bottling and manufacturing soft drinks. A person who pays this tax is not liable for tax on gross receipts from the sale of such soft drinks outside this state.
  - 3% reduced rate on person who furnish or distribute gas, water, or electric current.
  - 1.5% reduced rate on persons who manufacture gas or distribute manufactured natural gas.
  - 3% reduced rate on public utilities.
  - 37 cents per \$100 on the transfer of realty.
  - 11.5 cents per \$100 on financing statements and liens under the Uniform Commercial Code.
  - 15% of gross receipts on person selling mixed drinks or setups for mixed drinks.
  - \$15.00 tax on marriage licenses allocated to family violence shelters.
- Levies a 6% tax on the gross charge for the following business services:  
legal, engineering, architectural, surveying, accounting and bookkeeping, advertising, credit report and collection, mail, reproduction art and stenographic, building services, personnel supply, computer and data processing, management consulting and public relations, detective and protective services, cable television services, research and testing, motion picture production, veterinary, real estate brokerage and agents, landscape services, and advertising in newspapers.
- Directs the Commissioner of Finance and Administration to establish a tax rebate program to reimburse low-income residents of the state for the average amount of tax on food, legal services, and real estate brokerage and agent services. The reimbursement would be available to residents who have income of equal or less than 150% of the federal poverty level.
- Provides for the purposes of promulgating rules and regulations, the bill would take effect upon becoming law. For the purpose of changes in the franchise and excise taxes, the law would take effect January 1, 2000. For all other provisions, the law would take effect July 1, 1999.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenues - Net Impact:**

**\$362,200,000 FY00**

**\$437,200,000 FY01**

**Increase State Expenditures - Dept. of Revenue:**

**Exceeds \$3,000,000 Recurring**

**Exceeds \$2,000,000 One-Time**

Estimate assumes the following:

- Extension of the franchise and excise tax to LLCs and LLPs is estimated to increase state revenues approximately \$75,000,000 in FY00 and \$150,000,000 in FY01.
- Levying a 6% tax on certain services outlined in the bill is estimated to increase state revenues approximately \$488,200,000 in FY00 and the same amount in FY01.
- Repealing certain privilege taxes outlined in the bill is estimated to decrease state revenues approximately \$154,000,000 in FY00 and the same amount in FY01.
- Implementation of a Tax-Rebate Program for low-income residents is estimated to decrease state revenues approximately \$47,000,000 in FY00 and the same amount in FY01.
- The increase in state expenditure is estimated to exceed \$5,000,000 for implementation of a new tax structure.
- The impact for FY00 represents six months of franchise and excise tax collections based on an effective date of January 1, 2000.
- All other revenue and expenditure items have an effective date of July 1, 1999.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director